

Message Text

CONFIDENTIAL

PAGE 01 JAKART 02419 240556Z

17

ACTION EA-09

INFO OCT-01 AF-06 ARA-06 EUR-12 NEA-10 ISO-00 ERDA-05

AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 EB-07

FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01

PM-04 USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04

TRSE-00 FEA-01 PA-01 PRS-01 /125 W

----- 101192

P R 240324Z FEB 76

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC PRIORITY 2848

INFO AMEMBASSY ABUDHABI

AMEMBASSY ALGIERS

AMEMBASSY BAGHDAD UNN

AMEMBASSY CARACAS

AMEMBASSY JIDDA

AMEMBASSY KUALA LUMPUR

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY MANILA

AMEMBASSY SINGAPORE

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY VIENNA

USMISSION OECD PARIS

USMISSION EC BRUSSELS

AMCONSUL MEDAN

AMCONSUL SURABAYA

C O N F I D E N T I A L JAKARTA 2419

E.O. 11652: GDS

TAGS: ENRG, ID

SUBJECT: REVISION OF OIL PRODUCTION-SHARING AGREEMENTS

REF: JAKARTA 2105 (NOTAL)

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 JAKART 02419 240556Z

1. SUMMARY: PERTAMINA HAS CALLED IN MAJOR PRODUCTION-SHARING COMPANIES FOR DISCUSSIONS ON CHANGES IN CONTRACT TERMS. KEY POINTS INVOLVE GOVERNMENT WISH TO REVISE 40 PERCENT COST RECOVERY ALLOWANCE AND BASIC PERCENTAGE SPLIT ON PRODUCTION. COMPANIES ARGUE THAT THERE SIMPLY ISN'T ENOUGH "FAT" IN THEIR CONTRACTS TO PERMIT TYPE OF CHANGES ENVISAGED BY GOVERNMENT. END SUMMARY

2. PERTAMINA, STATE OIL COMPANY, HAS CALLED IN SEVERAL COMPANIES OPERATING UNDER PRODUCTION-SHARING AGREEMENTS FOR PRELIMINARY DISCUSSIONS ON POSSIBLE CHANGES IN CONTRACT TERMS. MOVE COMES CLOSE ON HEELS OF LAST WEEK'S GOI-CALTEX NEGOTIATIONS (REFTTEL) WHICH STILL REMAIN UNSETTLED. AMONG THOSE SUMMONED WERE ARCO, IIAPCO (INDEPENDENT INDONESIAN AMERICAN OIL COMPANY), PETROMER TREND, UNION AND JAPEX. APPARENTLY ONLY MAJOR PRODUCERS I.E., 50,000 B/D AND ABOVE, WERE INVOLVED AS SMALLER OPERATORS SUCH AS CITIES SERVICE WERE NOT NOTIFIED. COMPANIES HELD INDIVIDUAL SESSIONS FEBRUARY 16-17 WITH TIRTO UTOMO, WHO IS NOMINALLY PERTAMINA'S DEPUTY FOR LEGAL AND FOREIGN MARKETING BUT WHO ALSO SERVES AS RIGHT HAND MAN FOR BOTH PERTAMINA PRESIDENT-DIRECTOR GEN. IBNU AND DEPT. MINES OIL AND GAS DIRECTOR WIJARSO.

3. ACCORDING TO ONE PARTICIPANT, PERTAMINA TOLD COMPANIES THAT GOVERNMENT WISHES TO REVISE COST RECOVERY PORTION OF AGREEMENTS. CURRENTLY COMPANIES MAY RECOVER ANNUAL OPERATIONAL COSTS UP TO 40 PERCENT OF VALUE OF TOTAL PRODUCTION, OR ROUGHLY \$5.12 ON PER BARREL BASIS. DEPT. MINES AND PERTAMINA BELIEVE THIS FORMULA OVERSTATES COMPANIES' ACTUAL COSTS WHICH GOVERNMENT ESTIMATES TO BE IN NEIGHBORHOOD \$2.00-\$3.00 PER BARREL. ACCORDING TO WIJARSO, GOI AGREES WITH BASIC PRINCIPLE OF COST RECOVERY BUT FEELS THERE IS NOTHING "SACRED" ABOUT FIGURE OF FORTY PERCENT. COMMENT: SPECIAL TEAM FROM PRICE-WATERHOUSE HAS BEEN WORKING WITH PERTAMINA'S FOREIGN CONTRACTORS DIVISION ADVISING ON WAYS COST RECOVERY ALLOWANCE COULD BE STANDARDIZED AND TIGHTENED. END COMMENT

4. OTHER MAJOR POINT CONVEYED TO COMPANIES CONCERNED REVISION PROFIT SHARE FROM BASIC 65/35 SPLIT IN FAVOR PERTAMINA TO 85/15 DIVISION ON FIRST 50,000 B/D AND 87.5/12.5 ON ALL PRODUCTION THEREAFTER. IT IS NOT CLEAR AT THIS POINT WHETHER THESE TERMS CONFIDENTIAL

CONFIDENTIAL

PAGE 03 JAKART 02419 240556Z

WOULD BE APPLIED ACROSS-THE-BOARD TO ALL PRODUCTION-SHARING CONTRACTORS OR ONLY ON SELECTIVE, CASE-BY-CASE BASIS COMMENT: PERTAMINA HAS BEEN MOVING IN THIS DIRECTION FOR SEVERAL MONTHS. LAST ROUND OF PRODUCTION-SHARING AGREEMENTS SIGNED IN JULY 1975 TIGHTENED INITIAL SPLIT ON FIRST 50,000 B/D OF PRODUCTION AT 72.5/27.5 RATIO. END COMMENT

5. DISCUSSIONS WITH COMPANIES WILL RESUME THIS WEEK. ARCO

BEGAN TALKS MONDAY (FEBRUARY 23) WITH PERTAMINA AND IIAPCO IS SLATED TO HOLD TALKS LATER IN WEEK. PREDICTABLY, COMPANIES ARE UNHAPPY WITH THESE PROPOSED REVISIONS. COMPANIES ARGUE THAT THERE SIMPLY ISN'T ENOUGH "FAT" IN THEIR CONTRACTS TO PERMIT TYPE OF CHANGES ENVISAGED BY GOVERNMENT. ANOTHER CHIEF COMPLAINT IS THAT COMPANIES HAVE JUST SUBMITTED THEIR 1976 WORK PROGRAMS TO PERTAMINA; THESE CHANGES WOULD FORCE THEM TO NOW REVISE PLANS WHICH WILL MEAN, IN SEVERAL CASES, CURTAILMENT OF NEW EXPLORATION AND PRODUCTION ACTIVITIES. COMMENT: ACCORDING TO SOURCES IN BOTH OIL AND GAS DIRECTORATE AND PERTAMINA, E&P EXPENDITURES AS BASED ON COMPANIES' WORK PLANS ARE ESTIMATED TO SHOW SIGNIFICANT DECREASE IN 1976 -- FIRST DROP IN SPENDING SINCE 1967 WHEN INDONESIA'S OIL BOOM GOT STARTED. COMPANIES INSIST THAT ANY CHANGES WILL FORCE THEM TO CUT BACK EVEN FURTHER ON INVESTMENTS THUS MAKING IT DIFFICULT TO REACH THEIR TARGETED PRODUCTION GOALS THIS YEAR. END COMMENT.
NEWSOM

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM PRODUCTION, AGREEMENTS, NEGOTIATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 24 FEB 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: saccheem
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976JAKART02419
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760068-0359
From: JAKARTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760220/aaaaares.tel
Line Count: 132
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 76 JAKARTA 2105
Review Action: RELEASED, APPROVED
Review Authority: saccheem
Review Comment: n/a
Review Content Flags:
Review Date: 30 MAR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <30 MAR 2004 by CollinP0>; APPROVED <27 JUL 2004 by saccheem>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: REVISION OF OIL PRODUCTION-SHARING AGREEMENTS
TAGS: ENRG, ID, US, PERTAMINA, CALTEX
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006